MANAGER MOTIVATION IN THE CONTROL OF THE NAVY STOCK FUND

by

H. Lynn Hazlett

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CHAPTER I

INTRODUCTION

The Navy financial management system for material encompasses a vast supply organization which is built upon both inventory and financial management structures. Management of this supply system is vested in the Navy Supply System Command with performance measures based upon results, often under adverse conditions and deteriating resources. In general, the Naval Supply Systems Commander is responsible for three broad areas of management: the development and promulgation of policies and methods governing supply management of Naval material; the development and direction of the Navy Supply System, and; the provision of staff assistance to the Assistant Secretary of the Navy (Installations and Logistics) in matters related to supply, distribution and disposal of Navy material.[1]

To support the national interest, it should be incumbent on those involved in management in the Naval Supply System Command to perform their duties in the most efficient practical manner. To do so requires individual knowledge and application of the functions, principles,

[1]C&NM Instruction 5430.10.

techniques, and tools of management commensurate [illegible] [illegible] assigned responsibility. When Robert S. McNamara was Secretary of Defense, he stated that one of his original three major objectives on assuming office in 1961 was to make a broad effort to improve the effectiveness and efficiency of the defense establishment, and that this would prove to be a tough and controversial task.[2] This emphasis on improved management has been reflected throughout the defense establishment.

One of the important traditional management techniques used by the Naval Supply System Command in carrying out its assigned management responsibilities is the utilization of a Navy Stock Fund (NSF) to finance inventories of designated supplies and other stores.[3] This Navy Stock Fund has grown from an initial capitalization of $200 thousand in 1893 to its present value of $1.065 billion.[4] It may be readily observed that this large and ever growing investment has presented enormous management problems.

In addition, a very real and significant problem of continual cash reduction has evolved. The Navy is be[illegible]

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[2] Robert S. McNamara, "Defense Department Decision-Making," An address to the American Society of Newspaper Editors as printed in the Army, Navy, Air Force Register, May 4, 1963.

[3] Department of the Navy, Bureau of Naval Personnel, Financial Management in the Navy, Nav Pers 1079-A, 1962.

[4] The Navy Stock Fund Annual Report, Fiscal Year 1968, p. 8.

forced by the Bureau of the Budget to reduce on hand stocks through curtailment of stock replenishment funds. That is, replenishment funds are apportioned to the Navy in an amount less than the value of material issued, forcing a reduction in the on hand inventory. This arbitrary reduction has been applied on a gradual basis to permit the balancing of long supply and short supply items, but the pressure has been constant.

It is the purpose of this paper to seek out new ways to improve effectiveness and efficiency within the management of the Navy Stock Fund. The principal approach will be to delve into the human behavior side of management and the effect, if any, on the overall organization.

While the Navy Stock Fund is a story of change, it has been changes in techniques of inventory control coupled with financial accounting improvements for which most of the effort has centered. Competitive business has gone one step farther to improve its profitability positions. That is the human side, or recognition, that managers perform better when goals are set and rewards or punishments are issued accordingly.

Thesis Approach and Research Questions

This research paper will examine in depth the purpose and theory of the Navy Stock Fund in Chapter II to provide a general background and history. The next Chapter

will discuss the revolving fund operations as it [illegible] day. These Chapters will provide the necessary background of the revolving fund concept prior to delving into the basic research question: could improved management be accomplished by a greater degree of management participation and the setting of meaningful goals and objectives on an individual activity basis? In approaching this question, it will be necessary to identify the current manager motivation factors and the management philosophies in use today.

In order to properly discuss the thesis question, it is considered appropriate to analyze current theories of management in use by the business world. Chapter V will follow and present in detail the Navy Stock Fund retail system management philosophy, and the related problem areas. Navy Stock Fund management motivation techniques and performance indicators will be discussed to enable an objective analysis of the manager's responsibility. It is believed that this will lead to the identification of common denominators to facilitate comparison with the business world use of participative management concepts.

Chapter VI will face the challenge of change and present the conceptual framework for a modified participative management system for use by managers of the Navy Stock Fund. In conclusion, manager motivation will be analyzed based upon the emergence of the proposed participative management system to enable the identification of associated problems

[illegible] its full [illegible] further development of [illegible] will [illegible] to greater recognition of [illegible] will provide a new, [illegible] management team.

CHAPTER II

THE NAVY STOCK FUND: PURPOSE AND THEORY

The Navy Stock Fund is the equivalent of a government owned purchasing and distributing corporation, which serves as a "business" for supply items in Navy operations. Items in common demand by Navy Forces throughout the world are purchased, distribution effected through wholesale and retail levels, and collection made following ultimate sale to Navy customers. The basic principal of Navy Stock Fund operation thus encompasses a revolving cycle of procurement, distribution and withdrawal. With the credit of the permanently appropriated capital, common items of supply are purchased and distributed through established channels of supply to Naval users. As these items are issued from inventory to use, the appropriations granted for "user" functions are charged and the cash capital of the Stock Fund reimbursed. By this method, new credit is generated for another cycle of supply service to Navy Forces. Except for the absence of sales promotion, the policy of no profit from operations, and the fact that a readiness position to meet military exigencies must be maintained, the principle is comparable to that of any large commercial merchandising enterprise.

The establishment of the Navy Stock Fund evolved as a direct result of management's effort to improve planning and control of the Navy's supply function. This awareness of management control system deficiencies dates back to the late 1800's and for this study will serve as a point of departure for discussion of the stock fund concept.

The Need and the Establishment

Paymaster-General Stewart of the Navy was concerned with supply system management as early as 1892 and stated that:

> action must be taken by top Navy management to improve the effectiveness of the Navy's supply function.[5]

In retrospect, Secretary of the Navy, Hilary A. Herbert, testified to the specific lack of an adequate control system in existance prior to 1886:

> The general-storekeeper system was established in the Navy ten years ago. Prior to that time, eight bureaus (of the Navy Department) acted independently of each other in the matter of purchasing, keeping accounts, caring for and issuing articles under their cognizance. This resulted in many differing systems in stock, in large and unnecessary accumulations of stores, bureaus often purchasing for their own use articles, large stocks of which were at the time lying idle in the storehouses of other bureaus. Secretary Whitney concentrated the entire system of purchasing for the Navy under the Paymaster-General, and established the general-storekeeper system, where by all articles on hand, no matter under what bureaus, were consolidated for general use and placed under the

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[5] _Report of the Paymaster-General of the Navy_, Chief of the Bureau of Supplies and Accounts, To the Secretary of the Navy, (Washington, D. C.: Government Printing Office, 1892), p. 5.

> control of the Bureau of Supplies and Accounts, which was held responsible for their purchase, care and issuance.[6]

It is clear from the standpoint of management control, the Paymaster-General originally was given the responsibility of inventory managemnt, but not the purse. The change enacted by Secretary Whitney gives evidence of the birth of the Navy's centralized inventory management system which is, to a great extent, the prime reason for the existance of the Navy Stock Fund.

> all supplies purchased with moneys appropriated by this Act shall be deemed to be purchased for the Navy and not for any Bureau thereof, and these supplies together with all supplies on hand, shall be arranged, classified, consolidated and catalogued, and issued for consumption or use, under such regulations as the Secretary of the Navy may prescribe, without regard to the bureau for which they are purchased.[7]

As a result of Paymaster-General Stewart's request, the Act of March 3, 1893, established the supply fund. Its use was limited to the purchase of "ordinary commercial supplies for the Naval service."[8] This Act represented a major step in providing a management tool for control and was the basis for passage of Public Law 81-216 in 1949, which authorized other departments of the Department of Defense to establish revolving stock funds.[9]

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[6]U. S. Department of the Navy, Annual Report of the Secretary of the Navy for the Year 1896, Washington, D. C.: Government Printing Office, 1896), pp. 30-31.

[7]U. S., 26 Stat 205, Act of June 30, 1890.

[8]U. S., 27 Stat 723, Act of March 3, 1893.

[9]Title IV of the National Security Act Amendments of 1949.

Although a pressing need for funds with which to finance a new function was the immediate purpose for the establishment of the Navy Stock Fund, there was another more fundamental and controversial purpose. Legislative action to centralize control over inventories was inevitable not only from the standpoint of good business practice, but also from the obvious defects in the whole system of purchasing, storage and control over supplies. The Secretary of the Navy, in one of his annual reports during this period, made the succinct comment:

> It is idle to suppose that abuses of the character I have glanced at can be prevented merely by a change in the personnel of the Department. It is the system that is vicious.[10]

This comment by the Secretary, in expression of the dilemma of the control system is not unique as pointed out by <u>Business Week</u>:

> The information that management needs to control the day-to-day business is organized along lines of responsibility within the company. This may sound easy but it doesn't always work out that way. The trouble is that many companies do not have clearly defined lines of responsibility among their executives. The result, more than once, has been that a company which innocently went to its accountants for "a little help with our reports" has found instead, it had to make a complete overhaul of the organization.[11]

The bureau organization, now called commands, has not changed substantially since its inception in the

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[10]U. S. Navy Department, Bureau of Supplies and Accounts, <u>History of the Navy Stock Fund and Naval Supply Account</u>, unpublished, 1945, p. 6.

[11]"Keeping Closer Tabs on Cost," <u>Business Week</u>, December 9, 1961, p. 43.

mid-nineteenth century. This organization structure has had a profound influence on the development of the Navy's logistic support system and the Navy Stock Fund. This rigid structure has made policy changes very difficult because of the necessity for any such change to comply with the systems in effect in each of the different bureaus. Since the establishment of the Navy Stock Fund in 1893, little if any change in purpose has been noted. The present charter, issued in 1955, states:

> The Navy Stock Fund is hereby reestablished to provide a simplified and effective means of managing, controlling, financing, and accounting for . . . such materials, supplies and equipment as are identified under Section IV hereafter.[12]

This is not surprising. The need still exists for a suspense account in which to carry inventories until finally expended to end-use. Inventory management is simplified on a Navy-wide basis, as the number of accounts are reduced. Control is more centralized. Although the statement of the Paymaster-General, in his annual report for fiscal year 1918, - "The specific advantage of the Naval Supply Account . . . and there are no disadvantages" - may have been biased, it is generally recognized that this type of fund has considerable merit.

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[12]U. S. Department of Defense, Department of the Navy, Charter for the Navy Stock Fund, BUSANDA Instruction 7610.1 of 26 September, 1955.

The Revolving Fund Concept

The Navy Stock Fund began as a revolving fund which was to consist of a total of cash and material not to exceed $200,000 in value. As material was "sold" to appropriations for end-use, the fund was reimbursed. This revolving fund concept has exerted a significant influence on the management and control of the supply system throughout its existence. By the simple expedient of limiting the total amount of the fund, Congress has been able to control the numbers and quantities of items to be carried in Naval inventories. The dollar limitation established in in 1893, soon proved insufficient. Additional amounts were authorized in each of the years 1897, 1898, 1899 and 1892. The demands on the fund continued to increase and when Congressional approval of increases in the total could not be obtained, drastic action was taken.

> In the face of constant refusals by Congress to increase the fund, Paymaster-General Rogers drafted the following letter which was signed by the Acting Secretary of the Navy in the absence of Secretary Meyer: "Upon the recommendation of this bureau, and after the unanimous approval of the bureaus of the Navy Department, the Department has directed that on July 1, 1907, all material which has been purchased from annual appropriations (except that on attached list) be transferred to and incorporated into the Naval Supply Fund. Thereafter all such material will have its value debited to the appropriation under which it is drawn and credited to the Navy Supply Fund."
>
> Secretary Meyer, upon learning that the "common general stock" had been transferred to the permanent supply fund, immediately took steps to have the stock segregated. A letter was prepared in the Secretary's

> office directing that this be done . . . Paymaster-General Rogers vigorously opposed the Secretary's letter and presented the argument that this transfer of stores was not an increase in the money value of the fund and that distinction should be made between the stores or stock placed in the fund and the Naval Stock Fund and that the fund itself was not disturbed.[13]

The Attorney General recommended that such action not be taken without legislation. Congress then authorized the transfer but made certain that the "fund itself was not disturbed."

> All stores on hand July first, nineteen hundred and ten, shall be charged to a naval supply account on the records of the Bureau of Supplies and Accounts and all purchases of stock or expenditures for manufactured or repaired articles for stock at Navy yards or stations, shall be charged to this account and be paid for from "General Account of Advances."
>
> The amount so advanced during the fiscal years nineteen hundred and eleven and nineteen hundred and twelve shall be charged to the proper appropriations as these stores are consumed from stock, and when disbursements made for all other purposes are consumed from stock, and when so charged shall be returned to "General Account of Advances" by pay or counter warrants provided, however, that such material as provisions, clothing and small stores, medical stores, and such other materials as the Secretary of the Navy may designate, may be purchased by specific appropriations or transferred to specific appropriations before such materials are issued for use or consumption. The said charge, however, to any particular appropriation, shall be limited to the amount appropriated therefor.[14]

The above Act stemmed from the recommendations of a consulting firm hired by the Navy to study its whole supply and accounting system. The firm of Warwick, Mitchell and Company, Chartered Accountants of New York City, also

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[13]<u>History of the Navy Stock Fund</u>, pp. 1[illegible]-[illegible]5.

[14]U. S., 36 Stat 792, Act of June 25, 1910.

recommended other controls to be instituted by the Navy. The next year Congress abolished the limitation on the amount of the fund by abolishing the fund itself and providing for the financing of the Naval stock account directly from the General Account of Advances. This was a treasury holding account, equal to the total of all annual Naval appropriations, which was established in 1879, to account for advances made to Navy disbursing officers in order to eliminate the necessity for making separate advances from each appropriation.

It is important to recognize that this assumed that all materials stocked would eventually be paid for by appropriations and that the "advances" from the General Account of Advances would eventually be repaid, thus, the revolving fund principle was to remain in effect.

The expansion of forces necessitated by World War I, was accompanied by a tremendous increase in inventories. As is usually the case during such an emergency, the momentum of the build-up out-stripped the need and at the end of the war a surplus existed. As there was no foreseeable need for many of these supplies, they were sold as excess; but, the revenue did not equal their book value. Congress was requested and found it necessary to appropriate money to offset these losses. However, a more serious problem existed. The total amount of money that could be invested in inventories could exceed the total of the annual

appropriations to the Navy. These appropriations were reduced sharply after the end of the war and the value of the usable stock on hand exceeded their total; thus, creating an overdraft in the General Account of Advances. Congress was reluctant to pass appropriations to cover these deficiencies as eventually, it was hoped, they would be reduced by the revenue received from "sales." The obvious solution was to reestablish a stock fund which would act as a working fund, from which excess cash could be withdrawn from time to time until the total amount was equal to that needed for current operations. Under this plan, new appropriations would not be required nor would the conversion of inventories into cash result in supplements to the appropriations which were passed for the support of the Navy. Congress accepted this solution and once again the Navy Stock Fund became a separate entity.

Congressional reappropriations and operating losses reduced the value of the fund to approximately $70 million as of June 30, 1939.[15] This amount was pathetically insufficient to support the build up in forces which was to take place in the next several years. Congress was slow to approve any increases until the outbreak of World War II. Even then the "lid" was not removed completely. On 23 December 1943, Congress, on the recommendation of the Bureau of the Budget, established a $250 million limitation of the

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[15] History of the Navy Stock Fund, p. 63.

total value of the fund.[16] The "ceiling" was reduced to $200 million in May, 1946.[17]

The ability to control the total investment in inventories through the use of the revolving fund concept was recognized by several of the committees established after World War II to study the organization of the government and to recommend organizational and procedural changes. The work of these committees resulted in the passage of Title IV of the National Security Act of 1947, as amended, Section 405, of which authorized the Secretary of Defense to "require the establishment of working-capital funds in the Department of Defense for the purpose of financing inventories of such stores, supplies, materials and equipment as he may designate." This Act also required that reports of the conditions and operations of these funds shall be annually to the President and to the Congress.[18] Since this time the monetary amount of the fund has been regulated through the regular budgetary and apportionment process.

The stock fund, as a tool for control, has continually changed to meet the needs of the times and will require continual creative management innovations. The limiting of the amount of the fund in no way effects the revolving fund concept. The protection of this concept affects nearly every operating policy. In the next Chapter, a detailed

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[16] Ibid., p. 72.

[17] U. S., 60 Stat 228.

[18] U. S., Public Law 216, August 10, 1949.

discussion of the management structure and methods used to direct policy and facilitate system control will be made.

CHAPTER III

CURRENT METHODS OF NAVY STOCK FUND OPERATIONS

The development of operating policies and procedures for the Navy Stock Fund is a never ending process. In the previous Chapter, some of the "growing pains" of the past were reviewed. Before delving into the management control system, it is considered appropriate to review briefly the policies and procedures in effect today.

General Management

The purpose and theory of the Navy Stock Fund provided an indication of the functions of the fund and the policies which must be established for guidance. The principal functions are: financing, inventory control, and accounting responsibility. Policies have been established for each of these functions: the more important of which are inventory criterias - pricing and budgeting. Budgeting, here, refers to the planning required for the control of the fund itself and not the budgets prepared for the operation of the Navy, although the accounting required to support the Navys' operating budget is more effectively performed through the medium of the Navy Stock Fund.

The Navy Stock Fund is managed under the

supervision of the Secretary of the Navy "subject to the broad direction of the Assistant Secretary of Defense (Comptroller), with respect to fiscal management and to the broad direction of the Assistant Secretary of Defense (Supply and Logistics) with respect to procurement and supply management."[19] Within the Department of the Navy, a similar division of responsibility for policy direction exists. The Office of Naval Material is responsible for effectuating policies of procurement and for determining methods to be followed in meeting the material requirements of the operating forces as determined by the Chief of Naval Operations. The Comptroller of the Navy formulates principles and policies and prescribes procedures in the areas of budgeting, accounting and reporting.[20] The Commander, Naval Supply Systems Command, is responsible for administering and managing the Navy Stock Fund in conformity with such policy statements, appropriate regulations, and procedures as may be issued by higher authority.

Within the Supply System Command, the Deputy Commander, Supply Operations, is the program director for the Navy Stock Fund. The Organization Chart, Exhibit I, shows the management hierarchy within the headquarters

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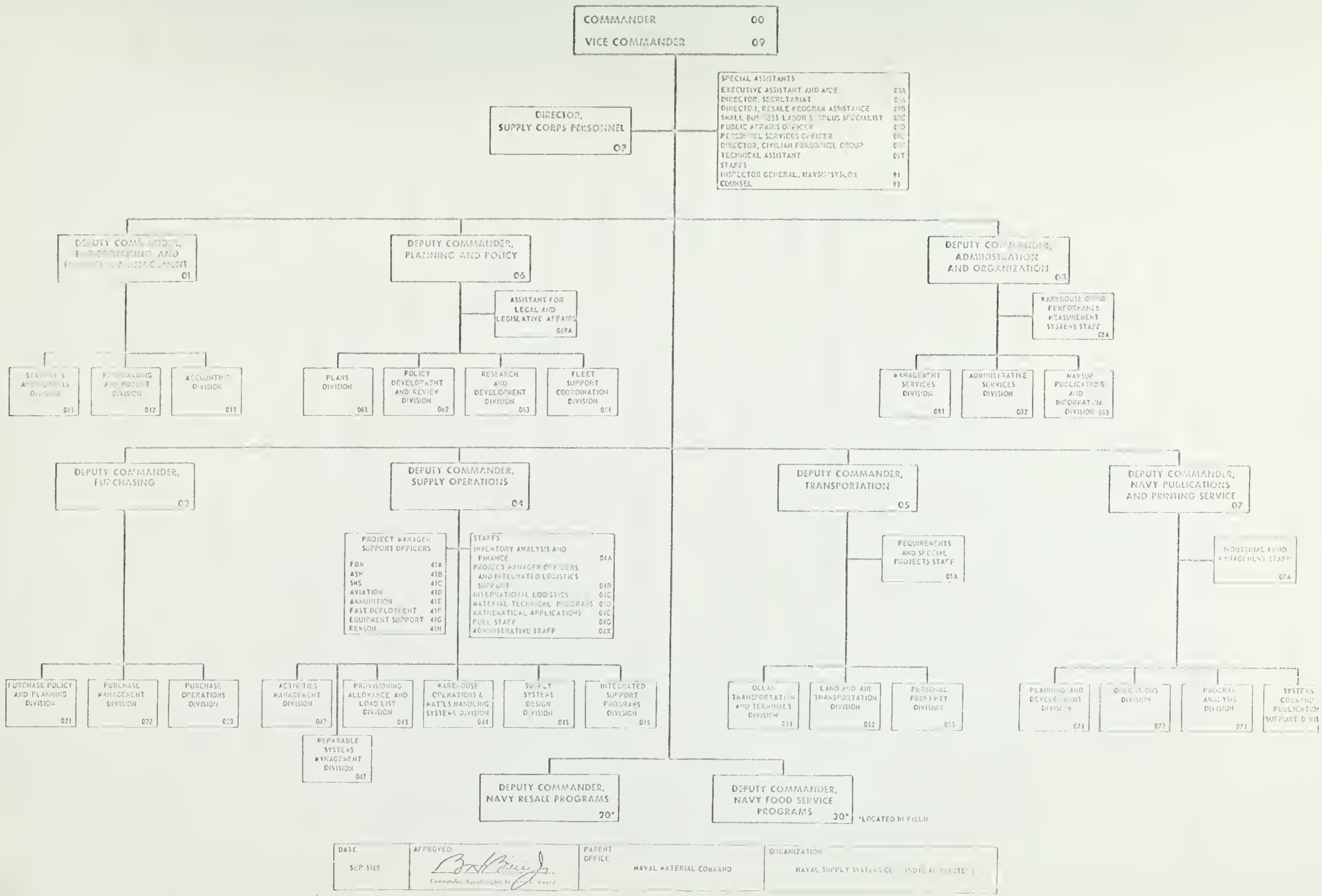
[19]U. S. Department of Defense, "Regulations Governing Stock Fund Operation," DOD Directive 7420.1 of 26 January 1967, p. 4.

[20]U. S. Navy Department, Navy Management Office, Department of the Navy Organization, NAVEXOS P-861, July, 1960, pp. II-17, 19.


COMMANDER 00
VICE COMMANDER 09
SPECIAL ASSISTANTS
EXECUTIVE ASSISTANT AND AIDE
DIRECTOR, SECRETARIAT
DIRECTOR, RESALE PROGRAM ASSISTANCE
SMALL BUSINESS LABOR SURPLUS SPECIALIST
PUBLIC AFFAIRS OFFICER
PERSONNEL SERVICES OFFICER
DIRECTOR, CIVILIAN PERSONNEL GROUP
TECHNICAL ASSISTANT 09T
STAFFS
INSPECTOR GENERAL, NAVSUPSYSCOM 91
COUNSEL 93
DIRECTOR, SUPPLY CORPS PERSONNEL 0?
DEPUTY COMMANDER, PROGRAMMING AND FINANCIAL MANAGEMENT 01
STATISTICS AND ANALYSIS DIVISION 011
PROGRAMMING AND BUDGET DIVISION 012
ACCOUNTING DIVISION 013
DEPUTY COMMANDER, PLANNING AND POLICY 06
ASSISTANT FOR LEGAL AND LEGISLATIVE AFFAIRS 069A
PLANS DIVISION 061
POLICY DEVELOPMENT AND REVIEW DIVISION 062
RESEARCH AND DEVELOPMENT DIVISION 063
FLEET SUPPORT COORDINATION DIVISION 064
DEPUTY COMMANDER, ADMINISTRATION AND ORGANIZATION 03
WAREHOUSE OPERATIONS PERFORMANCE MEASUREMENT SYSTEMS STAFF 03A
MANAGEMENT SERVICES DIVISION 031
ADMINISTRATIVE SERVICES DIVISION 032
NAVSUP PUBLICATIONS AND INFORMATION DIVISION 033
DEPUTY COMMANDER, PURCHASING 02
PURCHASE POLICY AND PLANNING DIVISION 021
PURCHASE MANAGEMENT DIVISION 022
PURCHASE OPERATIONS DIVISION 023
DEPUTY COMMANDER, SUPPLY OPERATIONS 04
PROJECT MANAGER SUPPORT OFFICERS
FBM 41A
ASW 41B
SMS 41C
AVIATION 41D
AMMUNITION 41E
FAST DEPLOYMENT 41F
EQUIPMENT SUPPORT 41G
REWSON 41H
STAFFS
INVENTORY ANALYSIS AND FINANCE 04A
PROJECT MANAGER OFFICERS AND INTEGRATED LOGISTICS SUPPORT 04B
INTERNATIONAL LOGISTICS 04C
MATERIAL TECHNICAL PROGRAMS 04D
MATHEMATICAL APPLICATIONS 04E
FUEL STAFF 04G
ADMINISTRATIVE STAFF 04X
ACTIVITIES MANAGEMENT DIVISION 042
PROVISIONING ALLOWANCE AND LOAD LIST DIVISION 043
WAREHOUSE OPERATIONS & MAT'LS HANDLING SYSTEMS DIVISION 044
SUPPLY SYSTEMS DESIGN DIVISION 045
INTEGRATED SUPPORT PROGRAMS DIVISION 046
REPARABLE SYSTEMS MANAGEMENT DIVISION 047
DEPUTY COMMANDER, TRANSPORTATION 05
REQUIREMENTS AND SPECIAL PROJECTS STAFF 05A
OCEAN TRANSPORTATION AND TERMINALS DIVISION 051
LAND AND AIR TRANSPORTATION DIVISION 052
PERSONAL PROPERTY DIVISION 053
DEPUTY COMMANDER, NAVY PUBLICATIONS AND PRINTING SERVICE 07
INDUSTRIAL FUND MANAGEMENT STAFF 07A
PLANNING AND DEVELOPMENT DIVISION 071
OPERATIONS DIVISION 072
PROGRAM ANALYSIS DIVISION 073
SYSTEMS COMMAND PUBLICATIONS SUPPORT DIVISION
DEPUTY COMMANDER, NAVY RESALE PROGRAMS 20*
DEPUTY COMMANDER, NAVY FOOD SERVICE PROGRAMS 30*
*LOCATED IN FIELD
DATE
SEP 1968
APPROVED:
PARENT OFFICE
NAVAL MATERIAL COMMAND
ORGANIZATION
NAVAL SUPPLY SYSTEMS COMMAND HEADQUARTERS

command. The Deputy Commander, Supply Operations, is responsible for:

1. Furnishing the Inventory Control Points (ICP) with guidance and criteria such as:

   (a) format of Financial Operating Plan and justification.

   (b) provisioning, sales projection replacement policy, investment levels, stratification, etc.

2. Reviewing the Inventory Control Point's operating plans, budgets and financial plan.

3. Determining program requirements and preparing preliminary budget estimates.

4. Presenting and justifying budget and allocation requests to review levels.[21]

The Deputy Commander Financial Management of the Naval Supply System Command, provides the program director with guidance as to budget format and administration, consolidates and summarizes the budget, collects financial inventory control data, maintains financial records, and prepares quarterly and annual stock fund reports to higher levels outside the Supply System Commands.

Inventory Control Points control and manage respective assigned categories of Navy Stock Fund Material. For example, the Fleet Material Support Office is the

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[21]U. S. Department of the Navy, Bureau of Supplies and Accounts, BUSANDA ORDER 2-1, 21 March 1961.

Inventory Control Point for that category of material called retail inventory. Retail inventory is best described as inventory positioned solely for support of retail customers vice support of wholesale customers. The Fleet Material Support Office is one of seven Inventory Control Points and accounts for more than 30 per cent of the total Navy Stock Fund inventory. It is believed that this is a representative segment of the total revolving fund management concept and will be discussed in depth in a later Chapter. The major functions performed by the Inventory Control Point are "the determination of requirements and the procurement of requirements to meet demands."[22]

The next level of inventory management within the Navy Stock Fund is the field activities and ships that manage various categories of inventory. Exhibit II identifies this relationship and shows the Fleet Material Support Office and other Inventory Control Points as the immediate management level over field activities. Field activities and ships may stock inventory under the technical management of more than one Inventory Control Point. Fund control is exercised by the use of suballotments of the Navy Stock Fund obligation authority and is discussed in detail in the next section.

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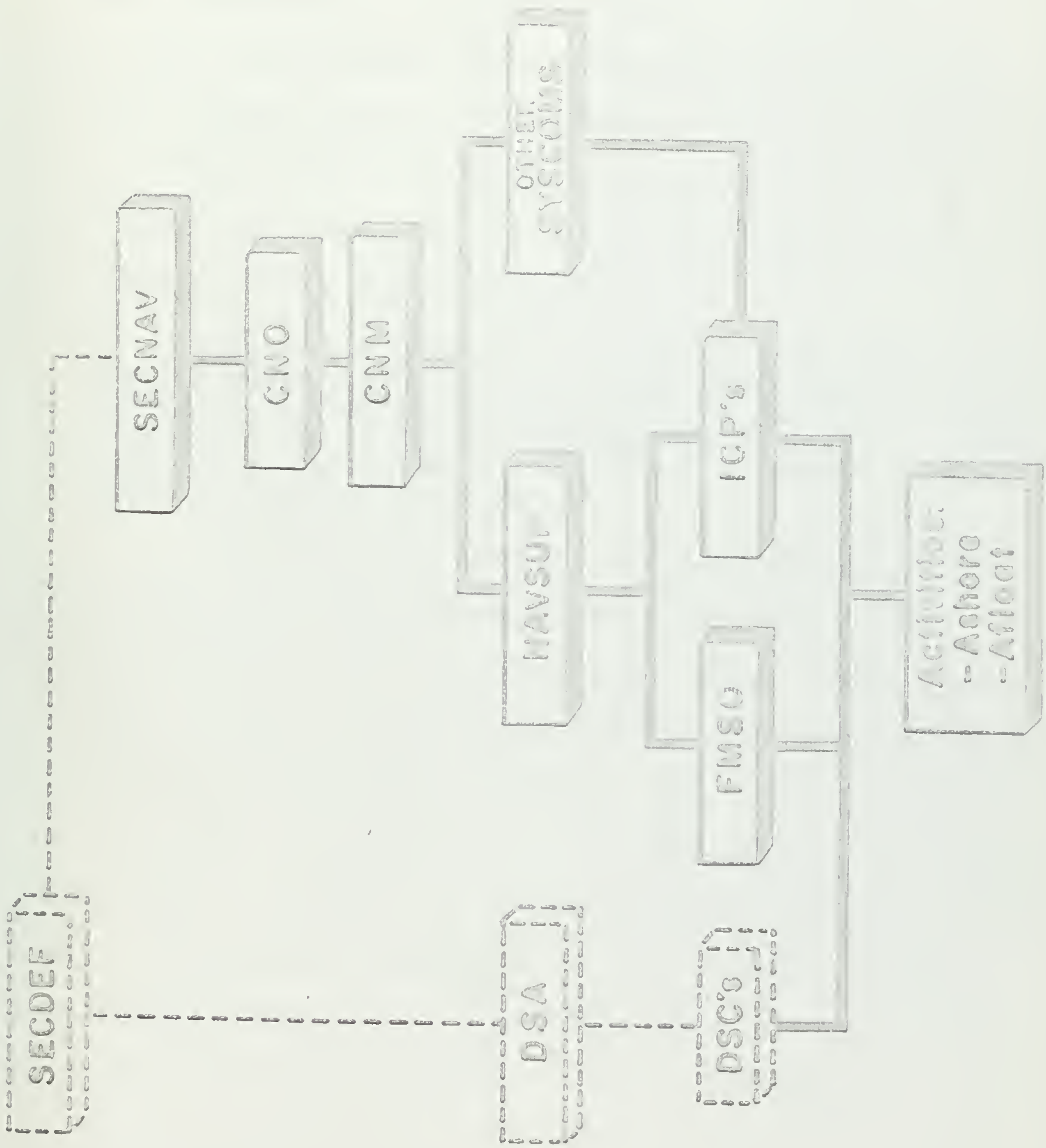
[22]U. S. Department of the Navy, Naval Supply System Command, The Navy Stock Fund, Annual Report, Fiscal Year 1968, NavSandA Publication 263, p. 3.

CHART II

THE NAVY CHANNEL [illegible]



SOURCE: Basic Principles to [illegible] Management, Authority by BuSandA Letter S1.T of 3 [illegible]mber 1965.

Financial Control of the Fund

The Navy Stock Fund is a separate entity within the Navy Department. Financial control of the fund is maintained in accordance with modern business practices through a budget which is prepared to support an operating plan. A double entry accounting system is utilized to record the data necessary for record purposes and for preparation of reports to management.

> Obligating authority is the currency used by the central administration of the Navy Stock Fund. It is allocated to the various inventory managers principally to provide for necessary replacement of sales. Planned build-up or draw-down of stocks are the major determinants of final allocations.[23]

The Navy Stock Account is simply the inventory of the business. The cash portion of the fund is also commonly referred to as the Navy Stock Fund. Control of this cash portion is maintained through the budget and the allocation and allotment procedure. Each year's sales and purchases must be estimated for justification of the budget. This budget is prepared in the Supply System Command on the basis of information submitted by the Inventory Control Points which estimate the total Navy requirements for the materials under their control. These requirements are justified on the basis of interpretations of the program

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[23]U. S. Navy Department, Bureau of Supplies and Accounts, The Navy Stock Fund Annual Report, Fiscal Year 1958, NavSandA Publication 263, p. 2.

and stockage objectives issued by the Chief of Naval Operations, the cognizant technical command and other higher authority and on the basis of past demand and estimated changes therein, due to changes in planned Navy operations. The Inventory Control Points receive much of the required data from the various field activities which make up the distribution system.

The budget process is much the same as for the Navys "operating" budget and the budget is subject to the same reviews and approvals, to apportionment after approval, and, in recent years particularly, to reservations. The Commander of the Supply System Command receives the allocations from the Navy Comptroller quarterly. These funds (authorizations to spend) are suballocated to the various Inventory Control Points on the basis of the previously approved budgets. Adjustments must be made, of course, for changes made during the approval and apportionment process and for changes in requirements that have occured during the period that has elapsed since the financial and operating plans were submitted. The allocation and suballocation are actually obligation authorizations based on estimated reimbursements for issues through the end of the fiscal year plus an amount based on the provisions of Section 645 of Defense Appropriation Act of 1954, which reads:

> Obligation may be incurred against anticipated reimbursements to Stock Funds in such amounts and for such periods determined by the Secretary of Defense,

> with the approval of the Director of the Bureau of the Budget, to be necessary to maintain required stock levels not inconsistent with planned operation for the succeeding fiscal year, without regard to fiscal year limitations.[24]

The Inventory Control Points issue allotments to those field activities which require them for local procurement and operating expenses such as manufacture, repair and transportation that are properly chargeable to the Stock Fund. Allotment and suballotment status reports flow back up the administrative organization from field activity to the Inventory Control Points to the Headquarters, Supply System Command.

The System described above is just one of the controls on the Stock Fund and is an integral part of the entire Navy Accounting System. It is difficult and perhaps improper to try and segregate it; however, it is one control that tends to conflict with the "pure" revolving fund concept by limiting the Stock Fund to an annual cycle.

Inventory Management

Inventories of Navy Stock Fund items are directly administered and controlled by the following Inventory Control Point managers:

Aviation Supply Officer
Ships Parts Control Office

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[24] U. S. Department of Defense, Assistant Secretary of Defense (Comptroller), Department of Defense Instruction 7420.5 of November 26, 1956.

Electronics Supply Office
Navy Publications and Forms Center
Navy Ships Store Office
Fuel Supply Office
Fleet Material Support Office (Retail)[25]

Due to the number of management aspects involved, this paper, as mentioned earlier, will be restricted to the discussion of the Fleet Material Support Office (FMSO) retail management system. The Fleet Material Support Office managed inventory is valued at more than $302 million, and represents the largest single segment of the Navy Stock Fund.[26] It is for this reason that this significant area of management was selected for analysis and possible recommended improvement.

The determination of which items of material to be stocked is probably the most basic yet difficult policy decision which the managers of the Navy Stock Fund must face. This selection is, to the extent possible, made on a category of material basis.[27] If the material is of the type that has a low demand and; therefore, a slow turnover, the revolving feature of that portion of the fund so invested is severely restricted. Material with a high cost or a high obsolescence characteristic may cause excessive inventory losses or leakages. Many of the most serious problems which have arisen in the administration of the fund have involved determination of inventory criteria.

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[25] Fiscal Year 1968, p. 2.

[26] Ibid., p. 8. [27] Ibid., p. 3.

Closely related to the problem of inventory criteria is the determination of the quantity of stock to be financed. A merchandising firm determines both the variety and quantity of stock on the basis of past demand and estimated future need. Their objective is to maintain a high turnover and keep dead stock at a minimum. Their purpose is to "re-use" their investment as often as possible and; thereby, increase its utility. The Stock Fund has this objective also in that rapid inventory turn-over will tend to reduce the overall investment, given a static condition.[28]

The Fleet Material Support Office retail inventory is "backed-up" by the Defense Supply Agency (DSA), Army Tank Automotive Command (TACOM), and General Service Administration (GSA) wholesale inventories; therefore, it is necessary to hold the Navy inventory at the lowest possible level consistent with adequate support to the customers. Consistent with this policy, retail stock points are authorized a minimum inventory expressed in months of supply. The Navy is being forced by the Bureau of the Budget to reduce its actual on hand stocks to this minimum through curtailment of stock replenishment funds.[29] That is, replenishment funds are apportioned to the Navy in an amount less than the value

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[28]U. S. Senate Committee on Armed Services, Investigation of The Preparedness Program, The Operation of Stock Funds in the Military Establishment, (Washington, D. C.: Government Printing Office, 1960), p. 14.

[29]*Ibid.*, pp. 14-15.

of material issued to force a reduction in the on hand inventory. This arbitrary reduction has been applied on a gradual basis to permit the balancing of long supply and short supply items, but the pressure has been constant.

The authorized stock level is the level to which the Navy is being reduced through curtailment of funds. It is also the basis for apportioning the available funds to the retail stock managers. The managers whose inventories are closest to the authorized level receive allotments that more closely approximate the value of their issues: managers whose inventories are considerably larger, receive allotments that are appreciably less than the value of their issues.[30]

The Fleet Material Support Office is responsible for the management of the Navy retail stock. The item by item management of this material is performed by each Navy stock point.

> The responsibility of the Fleet Material Support Office is to apportion the available funds to the stock points and to guide the stock points inventory management effort through the development and promulgation of improved management procedures.[31]

This specific identification of responsibility to improve management procedures will serve as the theme for this thesis. The next Chapter will look into the efforts by industry to improve management and will serve as a comparison for

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[30]U. S. Navy Fleet Support Office, The Variable Stock Level System of Inventory Management for Navy Shore Activities, (mimeographed), 11 August 1965, p. E-30.

[31]Ibid., p. 2.

discussion in the following Chapter of the Fleet Material Support Office efforts in this management area.

CHAPTER IV

MANAGEMENT CONTROL SYSTEM ANALYSIS

This Chapter will outline several management techniques and observations in the business world for the purpose of enlarging the visibility of current management methods. It is hoped that some of these concepts may be of value in the improvement of Navy Stock Fund management outlook and motivation theory.

Harold J. Leavitt, in a discussion of management theory, indicated there are three broad theories now being practiced. First, Taylorism and scientific management commencing in 1911. Second, participative management which emerged in the 1920's through the efforts of the Harvard Business School group at the Hawthorne Works of the Western Electric Company in Cicero, Illinois. However, since 1940, this type management has had its greatest impact at the managerial rather than the hourly level. Third, the recent emerging information-technology contribution to management.[32] There is an overlapping in the progress of management theories and their application with each effecting the

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[32]Harold J. Leavitt, Managerial Psychology, (Chicago: The University of Chicago Press, 1958), pp. 326-342.

other. The value of each and its contribution to the over-all objective of an institution can only be determined by careful analysis.

It is the purpose of this paper to examine in detail only one aspect of the many facets of management and the relationship of motivation. As indicated earlier, Harold J. Leavitt has outlined the theory of participative management. He has also stated that staff meetings, problem-solving committees, informal planning groups, work groups . . . all seem to have multiplied and gained importance in the last couple of decades, and for good reason: first, due to the growth and complexity of enterprises, and second, due to technological progress and increased need for the knowledge of specialists. Thus, size and technology dictate the use of the group, whether we like it or not. So the problem is a "how" not a "whether or not problem" in the use of groups.[33]

Operating Managers and Selected Management Techniques

Most authors, who discuss the application of participative management in free enterprise as practiced in the United States, use an approach based on a critical analysis of human relations in business. Often such an analysis results in skepticism of the value of participative management with findings being centered on too much management by committee and subsequent lack of individual decision

[33] *Ibid*.

making. This concern over the possibility of a diminution in the strength of individual managers of the future as a result of the assumed present business environment is expressed by William H. Whyte, Jr. in The Organization Man.

> That upward path toward the rainbow of achievement leads smack through the conference room. No matter what name the process is called - permissive management, multiple management, the art of administration - the committee way simply cannot be equated with the "rugged" individualism that is supposed to be the business of business . . . . The man of the future, as junior executives see him, is not the individualist but the man who works through others for others.[34]

Clarence B. Randall expresses a somewhat similar concern over committees.[35] He believes that free enterprise is authoritarian in principle in that one man should decide. However, he points out that there is a current passion for committees with the delegation of authority to groups as distinguished from individuals, and this seems to fit the new mood of management. He does acknowledge the value of committees, but is advocating that they be restored to their proper function which he advocates is advisory.

Newman and Summer discuss the value of committees in a more positive manner by regarding them as a special form of staff.[36] That is, a committee is a group of people

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[34]William H. Whyte, Jr., The Organization Man, (New York: Simon and Schuster, Inc., 1956), p. 18.

[35]Clarence B. Randall, The Folklore of Management, (Boston: Little, Brown and Company, 1959), p. 26.

[36]William H. Newman, Charles E. Summer, E. Kirby Warren, The Process of Management, (Englewood Cliffs, New Jersey: Prentice Hall, Inc. 1967), p. 103.

specifically designated to perform a managerial act and both its strengths and weaknesses arise from assigning the task to a group rather than an individual. They emphasize two main uses of committees in an organization: first, where group judgment is especially valuable, and second, where voluntary coordination needs encouragement. Thus, committees are a special kind of supplement used chiefly to knit together parts of a total organization.

Further insight and a slightly different emphasis on the use of committees is offered by LeBreton and Henning in their book, Planning Theory.[37] Primary participants in the planning role are committees and specialists. Although planning is treated as a separate management function, LeBreton and Henning argue that planning cuts across all management functions. This increases the importance of the role of committees in overall management practice.

Most authors are emphatic in their belief that no manager has time to seek participation on every decision he makes, nor does every decision require joint effort, particularly through the planning process.[38] Normally, when formulating a plan, a manager draws on the ideas of his subordinates and others who will be effected by the plan.

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[37]Preston P. LeBreton and Dale A. Henning, Planning Theory, (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1961), pp. 161-229.

[38]Newman and Summers, The Process of Management, pp. 438-439.

This kind of participation requires that all participants - manager and subordinates - share a belief that the final plan will be better because the ideas of two or more persons are integrated into the decision. Participation of this sort leads to better decisions.

This brief background provides a variety of viewpoints on participation as related to current business. We can now examine several different experiences concerning the application of participative management in industry. In so doing, the role and relationship of a manager within an enterprise should be kept in mind. That is, in his role of getting things done through and with people, he exists in a relationship up toward superiors, horizontally with his peers, and down toward subordinates.

Multiple Management

Perhaps the most classic and lasting example of participative management is that practiced by McCormick and Company of Baltimore, Maryland. On the death of his uncle, founder of the company, Charles P. McCormick was elected president of the company in 1932. His uncle had run a one man show and had resisted any suggestions for improvement from subordinates. C. P. McCormick had observed during the years prior to 1932 many practices of management which he thought could be improved. He was also interested in the employees of the company and had learned a good deal about

their feelings and abilities. This background led him to the belief that employees could all contribute to improving the welfare of the company. Thus, shortly after becoming president in 1932, C. P. McCormick instituted the first steps of a system which he refers to as Multiple Management.[39]

His trust in the human factor was such that in the mid-depression period of 1932, he raised wages and reduced the work week from 56 to 45 hours. At the same time, he established a Junior Board of Directors to supplement the judgment of the Senior Board of Directors with the energizing power of new ideas generated from the junior management levels.[40]

In order to achieve success in the face of these radical steps, the company would have to increase sales and production to reflect lower prices and at the same time reduce costs. This was made clear to all employees and they responded with increased production which was one factor in contributing to a company profit within one year. The serious and well thought out recommendations of the Junior Board was another major contributing factor.

The success of the Junior Board led to the establishment of a Factory Board made up of nine members from the working group. This Board proved to be as

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[39]Charles P. McCormick, Multiple Management, Clinton, South Carolina: Jacobs Press, 1938), p. 4.

[40]Ibid., p. 5.

successful as the Junior Board in its participation in McCormick management. The members of the Factory Board tended to be conservative, thoughtful, and constructive in their recommendations. It was not long before production was far ahead of sales. To meet this problem, a Sales Board was established, and following the policies of multiple management, sales increased rapidly.[41]

It should be noted that selection to the various Boards at McCormick is on the basis of merit alone. Also, that selection of an individual to a Board is made by the other members of the Board. A member is also unseated if in the opinion of the remaining members he fails to contribute constructively or for other major deficiencies. The net result of this merit system is that individuals consider themselves as important members of the organization.[42]

According to McCormick, the Multiple Management plan is built on a firm concept of putting people first. It is a democratic method of government for business which supplements the regular line organization. Major policy changes proposed under the plan are put into effect and are carried out by the line organization after being approved by senior board of directors. Thus, the active management actually is carried on through groups of more than fifty persons who make up the Board memberships, rather than

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[41] *Ibid.*, p. 136. [42] *Ibid.*, p. 34.

through a few executives. One of the major aims is to eliminate one man rule in the business and to train and develop young executives.

In writing in 1938 of his ideas on the success of Multiple Management, Mr. McCormick included some interesting observations:

> Management of the future will find most of its problems closely related to the human factor.
>
> . . . .
>
> It is apparent that the one man system of management is obsolete except in the case of vary small enterprises.
>
> . . . .
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> The morale of a one man business eventually will fall below par . . . it stultifies desire, imagination, originality, ambition, and tends to produce yes men and politics.
>
> . . . .
>
> The primary purpose of future management will be to build men.
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> . . . .
>
> On two factors depends the success of every religious, fraternal, social or business organization. These factors are certain defined benefits and individual responsibility.[43]

Multiple Management at McCormick and Company continues to thrive today and remains basically unchanged since its inception in 1932. Mr. McCormick, in later writings, has reiterated his belief in multiple management and has enlarged on the human relations aspect through proven experience at McCormick and Company.[44] In short, he believes that there are only five basic factors which

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[43]*Ibid.*, pp. 50-80.

[44]Charles P. McCormick, *The Power of People*, (New York: Harper and Brothers, 1949).

employees desire from their jobs. These are fair pay, security, opportunity, recognition, and participation.[45] It is in the area of participation that Mr. McCormick believes his company has contributed most to furthering better human relations. However, Mr. McCormick is quick to point out that a human relations approach is not a cure-all for a failing business. He warns that each company should examine its own needs, then adopt and adapt the basic Multiple Management concept best suited to those needs.[46]

The Scanlon Plan

The Scanlon Plan is a philosophy of management which rests on theoretical assumptions that will produce a stronger organization, improved attitudes, and better practices. The plan, evolved by the late Joseph Scanlon, embodies two central features, cost-reduction sharing and effective participation. Neither of these features alone would be likely to bring about a major change; linked together, however, they represent a powerful system of organizational control.[47]

It should be emphasized that in the Scanlon Plan, cost-reduction sharing is not profit sharing in the

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[45] *Ibid.*, pp. 7-9.

[46] Ibid., p. 19

[47] Douglas McGregor, *The Human Side of Enterprise*, (New York: McGraw-Hill Book Company, Inc., 1960), p. 111.

conventional sense, but is a sharing in savings realized through the efforts of the employees in reducing operational costs. This feature is in addition to a normal, competitive wage and salary structure and results in added incentive. Because all employees normally participate in the cost-reduction feature, it promotes a realization of inter-dependency among personnel with all motivated toward producing a more effective organization.[48]

The distinguishing feature of the Scanlon Plan is the coupling of cost-reduction sharing with effective participation. The participation is a formal method which provides an opportunity for every member of the organization to contribute his brains and ingenuity as well as his physical effort toward organizational improvement. This formal method consists of a series of committees at every level whose purpose is to receive, discuss, evaluate, and put into effect those workable ideas which will contribute to cost-reduction. In this approach, the human being is given full recognition in the organization. The individual is aware of his role and the relationship and interdependence of others. This results in a meaning of participation that all can understand.[49]

In his discussion of the Scanlon Plan, McGregor

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[48] Ibid., p. 112.

[49] Ibid., p. 115.

raises several important considerations. There are many companies successfully employing the Scanlon Plan. However, these companies are usually relatively small, the largest is a company of 8,000 employees, and each is usually led by a forceful personality providing full backing to the plan. There does result genuine integration and commitment to organizational objectives which represents the best way for individuals to achieve their individual goals. In addition, it has been found that the staff-line relationships are closer and more harmonious than exists in non-Scanlon Plan companies.[50] These considerations are clear cut, proven through experience, and worthy of study.

du Pont Management

Having examined participative management in industry from the aspect of one hundred per cent of company personnel being directly involved in management philosophy, it is now appropriate to review an example of participative management at the top-management level. The E. I. du Pont de Nemours and Company provides the best example in modern business of management by executive committee.

A brief review of the history of the du Pont company is necessary to understand how and why committee management evolved in the company.

General Henry du Pont ran the company as a

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[50] Ibid., p. 118.

"Caesar" type of management or one-man show from 1850 until his death in 1890.[51] He saw the company develop to a position as a dominant explosives manufacturer. He made almost all of the decisions, received and distributed the mail, wrote all the checks and signed all the contracts. He personally answered all letters addressed to him and he never had a secretary. Truly a remarkable man, and this is reflected by the following words on his tombstone: "Mark the perfect man and behold the upright; for the end of that man is Peace."[52] His greatness is reflected by the failure of his immediate successors to continue his managerial successes. But, such failure also reflects the weakness of an organization being dependent on the indispensable man.

In 1902, Eugene du Pont headed the company in partnership with five other du Ponts. He died in that year, and the four oldest surviving partners decided it would be best to sell the company to a competitor. However, the youngest partner, Alfred I. du Pont, dissented and persuaded them to "sell" the company to him and two young cousins, T. Coleman and Pierre Samuel, for $2,100 cash and $12 million in notes. It was these three who introduced systematic management.[53] At this time, du Pont owned five companies directly with interests in over sixty others which were being

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[51]Ernest Dale, The Great Organizers, (New York: McGraw-Hill Book Company, Inc., 1960), p. 32.

[52]Ibid., p. 35. [53]Ibid., p. 37.

amalgamated. Each company which had been operating independently was integrated as much as possible with respect to purchasing, supply, sales, and uniformity in production.

To accomplish this integration, the du Pont executive committee was established in 1903. It consisted of seven members, four of whom were du Ponts. These seven members were also vice presidents and served on the board of directors. In establishing policies, practices, controls, and procedures, the executive committee codified its work in the du Pont "how to" manual. It established staff departments and a research and development department. However, the company began to have serious organizational problems due in part to expansion and diversification with these problems being reflected as dollar losses incertain departments. A subcommittee on organization in March, 1919, reported that a major problem was the inflexibility of certain departments to change, but pointed out an equally serious principle relative to the Executive Committee.

> It must be recognized, that while adopting the principle that all major decisions on organization are made by the president, we have defeated the principle to a partial extent by allowing the Executive Committee to act for the president as the immediate superior in an executive way to whom the department heads are held responsible. (Members of the Executive Committee running line departments found it difficult to avoid a parochial view). The interposition of a committee charged with the duty of performing executive duties being done by an individual is, we believe, responsible for most of the minor inefficiencies, inconveniences, wasted effort and unnecessary duplication, which are matters of common knowledge to those engaged in carrying out the daily routine. These are usually small matters with relation to the business as a whole, and for this reason rarely

impose themselves on the attention of the higher officers. Nevertheless, in the aggregate they are of no mean importance.[54]

Here we find one of the most constructive criticisms of management by executive committee. Oversimplified, it may be stated from the du Pont subcommittee analysis, "do not use a committee for functions that can best be performed by a single executive." The subcommittee did not stop with this analysis, however, and completed a study of organizational principles and systems which, when produced as recommendations in 1919, were based on experience and familiarity with organization more complete than any comparative study to that time. The theme of the subcommittee's recommendations was based on the arrangement of components of the organization to produce maximum results with minimum effort. Detailed criteria were presented to support this theme to link organization to economics. Ernest Dale summarizes these criteria under ten headings:

1. Coordination of economically or market related effort.
2. Undivided responsibility.
3. Clearly defined superior - subordinate relationships.
4. Drawing economic advantages of specialization from centralized staff services.
5. "Rate-of-return" criterion of unit's performance.
6. Ultimate control by group management.
7. Knowledge of general business principles requisite for a general manager.
8. Multiple truths of management (recognition

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[54]Ibid., p. 55.

that there is more than one method of accomplishment without loss of efficiency).

9. Adaptation to change.

10. The "Ideal Organization" (The ideal condition is one in which every unit or group is so coordinated and controlled that each functions to the best advantage with respect to its own work and the work of the whole company . . . each unit should be so organized as to contribute to total organic unity.[55]

As is well known, du Pont Company was organized in 1921 in accordance with the basic recommendations of the subcommittee and the company's success is almost a legend. Ernest Dale states that if one were to select any one major reason for du Pont's success, it would clearly be the group aspect of its management.[56] However, he does point out that success was dependent on more than a large amount of participation on the part of those concerned in reaching company goals. He refers to the organic unity of all the company parts in developing the idea that people learned that each one's success was dependent on the other, and that all must work together to achieve a common objective.

William H. Mylander conducted numerous interviews of du Pont executive personnel in his research of committee management at du Pont. He concludes that such management is necessary for a company as large and with the diversity of products characteristic of du Pont. He emphasizes that the executive and financial committees are superimposed on the department levels, and that operating functions are the responsibility of line personnel. Space does not permit a

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[55]<u>Ibid</u>., pp. 57-61. [56]<u>Ibid</u>., p. 62.

complete summary of all the advantages of the committee-line system practiced at du Pont as detailed by Mylander, but he leaves the impression that it is an unqualified success.[57]

General Motors Management

Any examination of management should include at least a brief review of General Motors management, one of the largest and most successful private enterprises in history. There is a striking similarity in the history and organization of General Motors and du Pont. However, the organization and management as finally developed at General Motors was primarily due to the efforts of Alfred P. Sloan, Jr. and arrived at independently from the developments at du Pont.[58]

William C. Durant founded and operated General Motors as a one-man show during the period 1916 to 1920. Despite the genius and energy of Durant, the company developed serious financial problems which led to the replacement of Durant by Sloan. Durant's difficulties stemmed from a combination of lack of organization and policy coupled with generally unfavorable business conditions. Sloan is given credit for the so-called decentralized organization of General

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[57]William H. Mylander, "Management by Executive Committee," Harvard Business Review, Successful Pattern for Executive Action, 1955, pp. 57-64.

[58]Dale, The Great Organizers, pp. 71-89.

Motors established in 1920 and still in effect tod . In reality, General Motors can be considered a centralized-decentralized company. Sloan's basic philosophy of organization based on two principles stated in his recommended changes in 1920 will partly explain this concept:

> 1. The responsibility attached to the chief executive of each operation shall in no way be limited. Each such organization headed by its chief executive shall be complete in every necessary function and enabled to exercise its full initiative and logical development. (Decentralization of operations)
> 2. Certain central organization functions are absolutely essential to the logical development and proper coordination of the Corporation's activities. (Centralized staff services to advise the line on specialized phases of the work, and central measurement of results to check the exercise of delegated responsibility)[59]

Sloan's organization providing for major control and executive control indicates that General Motors is not completely decentralized. Major control is that viewed as a line of authority running from the stockholders to the board of directors and then to two major committees: the finance committee and the executive committee. Located under the committee is the president who is charged with the executive control. Under the president is operations, that is, the operating divisions of the corporation. Coordination is provided through an operations committee on which the heads of operating divisions are represented. A general advisory staff and financial and accounting staff provides

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[59]Alfred P. Sloan, Jr., My Years With General Motors, (New York: Macfadden-Bartell Corporation, 1965), p. 53.

general services under the president, but are specifically denied authority over the line. Also, the president is provided special assistants and an appropriations committee to assist in carrying out the function of executive control.[60]

One of Sloan's major objectives was to sever policy making from operations. This is reflected in his ideas of major control and executive control. With Sloan's introduction of financial controls and emphasis on decision-making based on factual data, the idea that General Motors is completely decentralized is not acceptable. Harold Wolff describes General Motors as finely balanced between decentralization and centralization with some things highly centralized.[61] He further points out that authority and responsibility are clearly spelled out with provision for flexibility to meet the constant change which is a fact of business life. This then, provides the framework in which General Motors management operates and which is designed to provide the good decision-maker, the opportunity and wherewithal to make good decisions.

Who, then, are these men who make the decisions at General Motors and how do they arrive at these decisions? Wolff states that:

> The real secret of General Motor's success is not just the organizational and financial techniques described

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[60]Ibid., pp. 54-56.

[61]Harold Wolff, "The Great GM Mystery," Harvard Business Review, September-October, 1964, p. 167.

by Slaon and many others, but its ways of developing managerial talent.[62]

Slaon is credited with instituting the "discipline of management by method" at General Motors. He was deeply interested in the development of professional managers who based their decisions on experience, hard work, the collection of facts and the exchange of information. This has led to the development of a top management elite, interested in their jobs, and with mutual respect leading to easy acceptance of the management committees. One observation has been made that General Motors managers spend as much time on developing managers as in managing, with the end result that everyone manages.

An article in Forbes Business and Finance lends credence to Wolff's observations. Its theme is that General Motors recognizes that management consists of people and has created a system to produce a continuing supply of the right kind of people. The one common characteristic of top executives at General Motors is that they have outstanding management ability. This has resulted from hard work, the reward of talent, providing the opportunity to broaden, and the men at the top being held responsible for developing men in the middle.[63] It is apparent that managers at General

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[62]Ibid., p. 164.

[63]"Getting Ahead at General Motors," Forbes Business and Finance, December, 1962, Vol. 90, No. 11.

Motors work together toward a common objective and that they recognize their interdependence. Although individual responsibility is well understood and assigned, there is no hesitation in working together which often takes the form of management by committee. The president of General Motors describes this part of management by stating that:

> most of the decisions are reached in lengthy informal discussions by having men who can collect all the relevant facts, analyze them, and come to sound conclusions on the basis of them.[64]

Summary and Identification of Successful Management Philosophies

The brief descriptions of the management philosophies instituted all lean heavily in favor of the recognition of the individual. In the case of General Motors, top executives recognized that the awareness of middle managers concerning company objectives is directly related to the individual manager's development. This approach is somewhat specific; whereas, McCormick and Company and the Scanlon Plan were oriented much more broadly toward group management or participative management. The theory of participative management is similar in both organizations; however, it was conceived and put into practice in different ways. The du Pont system finally developed financial and executive organizations and superimposed them on the operating managers,

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[64]*Ibid*.

being careful not to interfer with line responsibility. This system of only top executives making policy decisions is the more commonly practiced system today.

While all companies analyzed and discussed are successful and follow somewhat different philosophies of management, they do have one very significant similar characteristic. All of the companies faced a crises - life and death - and reacted to this situation by careful change in management methods. Also, it is very significant to note that the changes all evolved around a greater awareness of the worker and manager. More specifically, if the company could motivate the employees either through goal congruence or participative management, the company would move forward. This method of identifying the individual and recognizing his ability to participate in management seems to be the key issue. In an effort to avoid a discussion of centralized versus decentralized or a confrontation with line and staff theory, this paper will deal only briefly in organization study and more heavily with manager responsibility definition and how it may serve to motivate.

The crux of the success outlined by Mr. A. P. Sloan centered around all managers working toward a common goal which all members contributed to define. This planning must then be balanced with the assignment of responsibility which is well understood by all. Management development is continually stressed not only to further company earnings,

but the interest in development is a direct motivating factor for middle managers. This motivation takes place in the form of taking part in decision making and balanced by very specific management responsibility and authority. McCormick and Company pointed out that individuals perform better if they have the feeling that they have contributed and are recognized. This is even more evident from the standpoint of the individual when it is realized that often the most important factor is to be a recognized member of the organization. Three of the five needs of an individual are listed again as stated by Mr. McCormick: opportunity, recognition, and participation.

These successful concepts and theories will serve as a guide in comparing methods of management being used by the Navy and will serve to form the basis for possible improvement in Navy Stock Fund management. The next Chapter will look at the organization and management concepts presently used in managing the Navy Stock Fund.

CHAPTER V

NAVY STOCK FUND MANAGEMENT AND PERFORMANCE INDICATORS

The organization and functional concept of the Navy Stock Fund was discussed in detail in Chapters II and III and will serve as background for this Chapter. In this Chapter, the management control systems will be discussed both from the manager and the system point of view. It is expected that, in identifying the management objectives and techniques, a common denominator may be found that will provide a means for comparing business world management techniques to that being used in managing the business of the Navy Stock Fund.

As was pointed out in prior Chapters, the Navy Stock Fund, or revolving fund concept, was a product of efforts to manage various inventory assets in a more business like manner. This recognition of a need for more efficiency evolved "et alii" to meet the changing conditions of the time. The concept recognizes the buyer-seller aspect of the fund, and has been epitomized as the equivalent of a government owned concern. This concern purchases items in common demand by Naval forces throughout the world, distributes these items through wholesale and retail levels and collects

for the ultimate sale to Navy customers.[65] This relationship or comparison of the Navy Stock Fund to a business is not new; however, the following comparison of managers and motivation may provide greater insight into management improvement and manager development.

Manager Responsibilities and Organization

The Navy Stock Fund is administered by the Commander of the Naval Supply Systems Command and is referenced in the Fund Annual Report as the "General Manager."[66] The Deputy Commander, Supply Operations, works for the General Manager and is the manager with direct responsibilities for stock fund management. This manager provides executive management and policy formulation for (1) financial review and control, and (2) inventory control.[67]

In order to fully develop the management hierarchy and relationships, the Fleet Material Support Office, the largest Navy Stock Fund inventory manager, will be discussed in the balance of this paper. The Fleet Material Support Office is responsible for the inventory management of more

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[65] A. A. Campbell, "The Navy Stock Fund as a Business," Controller, March, 1953, pp. 128-129.

[66] Navy Stock Fund, 1967, p. 1.

[67] Navy Stock Fund, 1968, p. 2.

than 800,000 retail items carried in the stock fund.[68] This office is essentially the top management for the retail supply system, or that part of the stock fund inventory which is sold directly to the customer vice to another wholesale activity.

The retail supply system concept is not new as it has been in existence since the first Navy shore activity was told to support fleet units with consumable material. Only the names and the magnitude have changed over the years. Today, the retail system is larger in all aspects than ever before, and is getting bigger all the time.[69]

Field activity managers are defined as those managers within a field command having a basic mission other than supply support. The field command may have as it's mission the operation of a Naval Air Station and the supply field activity manager would be responsible to the Commanding Officer for supply support (including retail stock) of aircraft and related functions. The field activity managers report to the Fleet Material Support Office for financial control and inventory management; however, this same field manager also reports to another top manager for total performance. While the Fleet Material Support Office is not a

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[68]Captain A. Y. LeVene, Director, Retail Management Department, Fleet Material Support Office, Personal interview, Mechanicsburg, Pennsylvania, 10 February 1969.

[69]Principles of the Navy Retail Supply System, Fleet Material Support Office, unpublished, January, 1969.

direct line supervisor, the power to give and take equip- ment and replacement funds certainly affects the manager's ability to satisfy the operational requirements as expected by the immediate line manager. In dealing with this dilemma, the field manager may be motivated by varying influences.

At the field activity, each Supply Corps Officer, enlisted man, or civil servant, has an obligation to maintain the integrity of the retail system while at the same time meeting fleet requirements. Although the Fleet Material Support Office has been designated as the Navy's retail office and is responsible for providing guidance for inventory management in the retail system, of necessity, the guidance is provided in such a manner as to give the field activity manager maximum flexibility in meeting his obligations. While the reputation of an activity rests heavily on the Inventory Control Officer, it is an "all hands" effort in producing the desired results within the structure of the retail system.

the complexities involved in determining local policy, within guide lines provided by FMSC and higher authority, but never-the-less determined at and for the stock point concerning:

- Stocking policy
- Replenishment policy
- Excess/long supply policy
- Material availability policy
- MTIS policy

considering at the same time:

- Geographical and climatic conditions
- Characteristics of the material
- Seasonal procurement or delivery
- Size of shipments and carrier capabilities

[illegible] quantities [illegible]

[illegible]

Inve[illegible]

[illegible] point [illegible] important one.[70]

[illegible] field activity [illegible] perhaps comparing [illegible] of [illegible] the business world, discussed in the prior chapter.

Inventory Management

The Navy manager [illegible] the field [illegible] faced with interpreting and perpetuating the [illegible] philosophy of inventory control. This problem of providing [illegible] management of inventories is encountered every[illegible] life, even in the most commonplace situation. [illegible] makes out a grocery shopping list, she is [illegible] inventory management. She is determining what she [illegible] in order to provide her family with a balanced diet for the next two weeks, month, or for some other period until her next shopping trip. Instinctively she judges what will last and what will not or what she can buy at the neighborhood grocery.

The same problem faced by a housewife [illegible] her shopping list is encountered by an inventory manager [illegible] also the problem of limited resources to satisfy a seemingly

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[70]Ibid., pp. 1-7, 8.

inexhaustible demand. Unfortunately, he cannot rely on instinct. The number of items to be managed and the value of inventory precludes the use of instinct. This does not mean the manager can ignore good judgement for that is one of the tools he must employ in the pursuit of his assigned task. However, many types of inventory management systems have been employed by both government and private industry.[71] The Navy system improvements will be discussed later, but now a look at the general points of inventory management.

To the manager, inventory represents an investment in total mass of goods. A properly balanced inventory stabilizes internal operations and provides increased service to customers and of course, as discussed in Chapter II, this was a premise in establishing the stock fund concept. So, inventories are needed. How much? Well, five years worth of everything could be bought; thus, eliminating entirely the purchasing and receiving problems. Unfortunately or perhaps fortunately, the Bureau of the Budget cannot allocate the money for such a system and currently authorizes diminishing amounts each year.[72] So the Navy manager must attempt to obtain a trade-off between the inventory investment and smoothness of operation: i.e., maximum customer support at minimum workload and inventory investment.

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[71] Ibid., p. 3-1.

[72] Financial Accounting and Control Techniques for Supply Volume II, United States Army Logistics Management Center, Logistics Research and Doctrine Department, Fort Lee, Virginia, June, 1967, pp. E30-31.

Management can treat inventory as an investment and issue policy directive upon policy directive. However, in the final analysis, that investment is comprised of thousands and frequently tens of thousands of items and eventually, someone must make a "buy-no-buy" decision. An inventory manager's job is to make the commodity analyst decision easier and at times even relieve him of the necessity to make that decision.

> There are two basic questions that must be asked in managing and inventory:
>
> 1. How do I order? - This is called the reorder point, and
> 2. How much do I order? - This is called the operating level.
>
> The above questions seem fairly simple and straightforward. Unfortunately, the answers, or rather the best answers, are not simple.[73]

The implication of both questions is very clear, the manager must balance opposing costs in order to minimize total costs. To answer the question on reorder point, he must try to obtain the best trade-off between the cost of lost sales as opposed to carrying too much costly inventory. As the lost sales diminish, the inventory investment increases. Basically, the question is with a given quantity on hand, how long should the manager wait before reordering? Again a very evident dilemma for the manager. He must determine where the minimum costs lie in order to answer that question, or be willing to pay a little more to increase the effectiveness. This is a key decision as it will be shown that this effectiveness indicator is a primary measure of the manager's

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[73]Principles of the Navy, pp. 3-2, 3.

performance.

The answer to the second question, how much to buy is very similar in nature and affects the managers performance indicator (effectiveness) in the same manner. The basic difference is that this question is one of balancing the cost of ordering an item versus the cost of maintaining an item in inventory.

Management Performance Indicator

It has been pointed out that in general the field activity manager reports directly to a line senior and also to a technical staff of the Naval Supply System Command. Continuing to delve into the thesis problem of looking for ways to improve management of the stock fund does not permit space to review the line management controls; therefore, only technical manager controls will be discussed in the balance of this paper.

The retail stock fund manager is guided by two types of controls: one is the effectiveness indicator and the other is based upon inventory balance or investment turnover. The paradox of these two controls is that the former is monitored by the Naval Supply System Command and the latter by the Fleet Material Support Office, but they are both interdependent. These controls are uniform throughout all field activities and would seem to imply that one control system could effectively measure manager performance. However, this seems to be somewhat disagreed upon by the

business world managers. Professor Paik pointed out that each division manager should be controlled and measured upon mutually agreed criteria and further that no one system could effectively compare each division manager against others and at the same time reflect the true individual managers' performance.[74]

The net effectiveness measure is the measure of total requests for items stocked minus the lost sales (stock outs) as a per cent of the total requests. The Navy Supply System Command has established a goal of 90 per cent for all activities and generally all activities are looked upon, performance wise, as equals.[75] This type of measure of performance is clearly not the type that Chapter IV presented. The corner stone of all control systems recognizes that the manager must have responsibility and authority over the areas in which performance is measured.[76]

The manager actually has very little control over the effectiveness percentage rate as most of the items are independent variables; however, there are some exceptions.

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[74] Professor Chei-Min Paik, Associate Professor of Accounting, The George Washington University, Lecture given to members of the Navy Financial Management Program, Washington, D. C., 10 December 1968.

[75] Captain T. J. O'Conner, Code 04A, Director of Inventory Analysis and Financial Review, Headquarters, Naval Supply System Command, Personal interview, Washington, D. C., 28 January 1969.

[76] Joseph L. Massie, Essentials of Management, Background of Modern Management, (Englewood Cliffs, New Jersey. Prentice-Hall, Inc., 1964), p. 31.

For example, stock outs may occur as a result of many factors, such as:

1. Material orders properly and timely placed; but,
   a. Wholesale stockout-delay material receipt.
   b. Transportation-delay or mis-shipment.
2. Material damaged upon receipt.
3. Inventory not properly identified.
4. Demand change upward unscheduled, etc.

Very few of these items can the inventory manager totally control; yet, his performance indicator is based upon the number of stock outs. It is conceiveable that effectiveness could fluctuate down ward or upward by a significant amount with the changing of factors identified above. Most managers generally concede that the effectiveness indicator is not representative, but no other indicator exists. It seems that the effectiveness indicator once conceived as a motivation factor for inventory managers may have out lived its usefulness.

The investment turnover is a control established by the Fleet Material Support Office. All activities are funded by this office and receive investment dollars based upon how close the activity is to the uniform three and a half months of allowed investment level.[77] This standard of average investment level of three and a half months applies

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77Department of the Navy, United States Fleet Material Support Office, Instruction P 1400, 12 E, March 5, 1968, p. I-10.

to all field activities in the United States. Again many factors contribute to the inventory manager's ability and authority to control the variables that contribute to the amount of current investment level. Of course the manager is motivated to manage within the prescribed restraints as the future investment dollars depend on it. But the requirement is unrealistic as a single standard is not the proven technique that the business world follows in motivating managers.

Good managers are a scarce commodity and most all managers need some form of motivation.[78] Of course, the Navy manager is motivated by the Fitness Report filled out by the line senior; but, he also could be better professionally or job motivated by a different type of performance measure. No progress has been made in this area of management development within the stock fund management framework similar to the management development identified by du Pont and General Motors in the prior Chapter.

Operational Technology and System Improvement

In contrast to the manager value indicators, the operational technology and system improvements have moved forward at a rapid pace. System improvements for accounting and the use of automated data processing equipment have

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[78]Peter F. Drucker, Managing For Results, Business Realities, (New York: Harper and Row, Publishers, 1964), pp. 11-14.

been pursued and with a great deal of success. These system type innovations have been of considerable value to the field inventory manager. Some of the recent improvements are listed:

> Improvements in the Navy Stock Fund Accounting Procedures. To improve the accuracy and utility of accounting records of the Navy Stock Fund, several actions were initiated in Fiscal Year 1966 and a continuing follow-up review is being pursued to validate data generated in the accounting system. One of the improvements initiated includes strengthening of the internal review function at field commands. This involves, among other things, realignment of the personnel assets, if required. An additional improvement consisted of simplified reconciliation of certain stores accounting vouchers; thus, freeing personnel to provide added concentration in other areas. Further steps were also taken to simplify Navy Stock Fund accrual accounting procedures.
>
> Extended Application of the Uniform Automatic Data Processing System (UADPS) for Supply Management. UADPS, developed in accordance with guidelines promulgated by the Secretary of the Navy, has the following basic objectives: (1) to be responsive to the specific needs of the Navy, especially in areas of Fleet support, (2) to achieve inventory management cohesiveness within the Navy, and (3) to attain compatibility with goals of the Department of Defense in this area.
>
> UADPS is a complete and comprehensive automated supply management system and encompasses three distinct programs. The Stock Point Program is designed to provide rapid and highly effective service to fleet units through automated supply procedures at all fleet support stock points. The Uniform Inventory Control Point (UICP) Program consists of the installation of uniform automated procedures at three ICPS . . . so that Navy world-wide assets can be immediately tapped to fill fleet requirements. The ships program has been developed under the Maintenance and Material Management (3M) concept which provides for installation of uniform automated supply and accounting procedures in Navy ships to assist the fleet in integrating the highly automated military supply system . . . . Integral parts of the three programs embody Military Standard techniques (MILSTRIP/MILSTAMP, etc.) which make possible standard means of data interchange between Navy and the supply systems of DOD, GSA and other services. The Automatic Data Information Network (AUTODIN) provides a communications

capability for rapid transmission of the data.

> Further Accomplishments in the High Value Asset Control System (HIVAC). The purpose of the HIVAC program is to achieve inventory economics, without inpairing combat readiness, through specialized management attention to the small percentage of items which represent the major segment of annual procurement expenditures. Embodied in the concept of the HIVAC system is the requirement for maintaining world-wide material accounting records consisting of asset locations records, by activity, and transaction reports of movement of the controlled items by designated reporting activities. During Fiscal Year 1966, refined procedures were instituted for reporting world-wide movement of selected HIVAC items using the Military Standard Requisitioning and Issue Procedures (MILSTRAP). Under these procedures, changes reported in an item's custodial status, condition or movement have improved support responsiveness. Management has also been provided with a more expeditious and economical tool to audit material consumption, to monitor asset control, and to procure HIVAC items in a scientific and timely manner.[79]

Other system improvements with more direct application to the management process were recorded in early 1969:

> Management Improvements. During Fiscal Year 1968, FMSO established improved controls over the stratification program by requiring each reporting activity to accomplish a prestratification reconciliation of stock record balances with financial inventory ledgers prior to the submission of annual stock status reports. To further improve the stratification program, FMSO plans to provide an analytical report to the activities so that corrective action may be initiated where indicated.
>
> The VOSL (Variable Operating and Safety Level) concept of inventory management was extended in Fiscal Year 1968 . . . bringing the number of activities operating under the VOSL program to twenty-eight. During the year, a new ADP VOSL manual was developed and published. Major changes contained in the new manual are: a demand filter which screens exceptionally high demands for further review and a method for recording past quarter demand frequencies.[80]

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[79] The Navy Stock Fund, 1966, pp. 6-7.

[80] The Navy Stock Fund, 1968, p. 12.

In addition, the Fleet Material Support Office has initiated various studies in some major system and operational technology areas. These studies include:

1. Average Investment Level. It is the intent of this study to determine the supply effectiveness, that activities can hope to achieve with various levels of stock and to permit the development of budgetary data supporting various effectiveness rates.

2. Retention Levels. The intent of this study is to determine if a conflict exists between the policy governing investment and retention levels, and to develop/recommend new retention level criteria, if appropriate, for review by higher authority.

3. Requisition Short Model. This model's goal is to maximize requisition effectiveness within budgetary constraints.

4. Excesses. The goal of this project is to provide guidance to inventory managers whereby items in long supply could be adjusted to more realistic levels.

5. Stocking Criteria for low Demand Items. The purpose of this study is to analyze low demand items for recurring patterns in order to generate logistical replenishment and stocking criteria for low demand items.[81]

In identifying areas in which the inventory manager has been helped, it appears that it all has been directed at the improving of the system. The system in which the day-to-day operational process occurs. The accounting procedures, VOSAL, HIVAC, UDAPS and all the changes and studies identified are directly oriented toward giving the inventory manager better tools to do the job.

Without a doubt these system oriented changes are definitely good and necessary, and it is not the purpose of this paper to criticize them. However, when reviewing the factors that have changed or been improved upon in the area

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[81] Ibid., pp. 12-13.

of motivating the manager to excel, there may be room for concern. Essentially the system of control used today, (i.e., stock out per cent and dollar investment level) has been used for decades. The inventory manager must be a most unusual person in this changing world to be performing at his peak with these sterotype controls. Obviously, he is not! And here is the greatest source of untapped management resources. System improvement is always required from the technological view point; but, so is the recognition of human needs. The managers performance is directly related to the integration and commitment to the organizational objectives which represent the best way for individuals to achieve their individual goals.[82]

Management Dilemma

Certainly the manager is performing at a high level in an effort to attain these unreachable performance perfection indicators; but, with the realization that often he does not have control over all the inputs. In essence, the manager is faced with a three fold dilemma:

1. More than one reporting senior - line supervisor and two or more technical supervisors.

2. Unrealistic objectives or goals - the manager is faced with fixed goals but does not have total control of the elements contributing to the objectives.

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[82]McGregor, The Human Side of Enterprise, p. 118.

3. Navy Stock Fund dollar drain - continual crises of lack of funds (BUBUD restraint).

The first dilemma is tradition oriented and is beyond the scope of this paper for discussion and/or recommendation; but, not so with two and three. The second and third dilemmas are not new to the business world and were discussed, in depth, in Chapter IV. However, they have not been explored in terms of human behavior in the Navy management hierarcy, and; therefore, may now be worthy of comparison with the business world and a source of motivational strength when properly viewed.

The field managers generally view the current reporting and performance measures as inadequate and not a fair evaluation of direct management effort.[83] It follows if field manager motivation is not fully developed, then the total system (retail system) may not be operating at total efficiency. Meaningful objectives are lacking; but, it is believed, could be defined. This has been very clearly presented by Peter F. Drucker:

> After recognizing the relationship between personal and organizational objectives and the multiplicity of organizational objectives, with the resulting conflicts, it is clear that the job of using objectives in an organization is no simple task. Good management must develop a way in which objectives can be used to focus the attention of individual members of the organization on objectives that are meaningful to them.[84]

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[83]Commander C. W. Rixey, Navy Supply Depot Commander, Naval Support Activity, Personal interview, DaNang, R.V.N., February 2, 1968.

[84]Drucker, Managing for Results, p. 28.

This may lead to a solution for the research question and will be developed more fully as it could apply to the management process within the Navy Stock Fund retail system. Drucker continues in identifying a useful approach:

> Management by objectives, in which objectives are supplied to every area where performance and results directly and vitally affect the survival and prosperity of the business.[85]

While survival may not actually be a factor, there is a serious growing problem of obtaining the necessary infusion of capital. However, it is beleived that a crises does exist in this area of working capital dollars as outlined by the recent Annual Report.

> working capital funds are required to maintain cash resources only in such amounts as are necessary at any time for cash disbursements. In order to comply with this requirement, it was necessary in the latter part of FY 1968 to request a cash augmentation for the NSF. OSD, in reply to this request, confirmed the essentially of making advances to the stock fund from the appropriation accounts Operation and Maintenance, and Military Personnel, Navy in an amount deemed necessary . . . . Accordingly, collections were made against outstanding orders of the O&M, Navy appropriation to provide an acceptable ending FY 1968 cash balance. The amount borrowed and collected against these orders was $78.0 million to allow for a minimum cash position of $13.8 million, down from a beginning of $41.8 million.[86]

This leakage of cash resources or the requirement for more obligation authority is a serious problem. This trend was evident as early as 1966 as reported by the annual report that the beginning cash balance was $98.1 million and twelve

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[85] Ibid., pp. 30-31.

[86] Navy Stock Fund, 1968, p. 4.

months later was reduced to $14.6 million.[87] The need for greater efficiencies and economies is clear, as activities will be called upon to perform better support while expansion funds or new investment dollars are being cut. To improve the system, hardware or method of process is not enough as the path for survival is through the manager. An awareness of manager motivation factors is required and a new management philosophy must be developed.

Management Common Denominators

It is axiomatic that in order for any management system to operate effectively and efficiently that the manager will have fuller commitment if he has control and recognition as well as opportunity over his span of control. The area of participation in the setting of goals, while only briefly discussed, is a key element in achieving greater manager performance. The application described as multiple management by McCormick and Company is one aimed at human relations - an area that Navy managers have not actually been subjected to. The multiple management came about in reaction to changing economic conditions and a need for greater efficiency. This is comparable to the current position of the Navy Stock Fund, changing conditions (investment requirements) and a need for greater efficiency.

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87 Navy Stock Fund, 1966, p. 3.

Participative management as applied in the business world could be used in the retail system to assist management in setting meaningful objectives and goals.

The Scanlon Plan showed that cost reduction was possible through the use of effective participation. The intent of improvement in the management of the fund is not necessarily cost reduction, it is; however, the desire to realize the greatest benefit from the available resources. This further amplifies the possible comparison of the business and retail system.

The criteria presented by Dale, in describing du Pont management, have been very successful and could be used as a plan for Navy management as well. Briefly, three of the items will be repeated:

> - Multiple truths of management (recognition that there is more than one method of accomplishment without loss of efficiency).
> - Adaption to change.
> - The "Ideal Organization" (the ideal condition is one in which every unit or group is so coordinated and controlled that each functions to the best advantage with respect to its own work and the work of the whole company . . . each unit should be so organized as to contribute to total organic unity.[88]

These criteria are well within the reach of the inventory managers, both field and executive, and require only the proper orientation for implementation leading to possible increase system benefits through management improvement.

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[88]Dale, The Great Organizer, pp. 60-61.

While the General Motors philosophy was described in detail, the real comparable factor is size. The management system recognized the field managers clear area of responsibility; but, did not dilute the value of certain central organization functions essential to development and coordination. Here lies the heart of the problem. The Fleet Material Support Office provides investment funds for more than 180 field activities, with totally centralized control. The approach, by A. P. Sloan, was a finely tuned balance between centralized and decentralized management. It is suggested that the approach to management by this large organization is comparable and the building of a stronger team of managers could be accomplished using this type of model. This concept, as well as the other business world philosophies, will now provide a springboard for developing a modern management system philosophy for the retail system.

The next Chapter will draw upon the data presented thus far and will develop a plan that may lead to the improvement of the retail system. The plan will explore possible organization changes and interdependent relationships of various activities. In addition, benefits and the inherant disadvantages of this type of change will be discussed to insure the conceptual placement in the proper perspective.

CHAPTER VI

MANAGEMENT MOTIVATION COMPARISON AND CONCLUSION

This paper has traced the development of the Navy Stock Fund concept and the basic theory of the revolving fund noting the many attributes similar to those found in the competitive business world. It has also pointed out that while the revolving fund concept is sound, and perhaps essential today, it is dependent upon the establishment and perpetration of sound management principles.

The Challenge of Change

The current management challenge evolves around the need for greater efficiency and service, while at the same time, greater budgetary restraints. In practice, this problem is not new or unique; but, it will serve as the "bench mark" to seek another type of solution. Like any dynamic growth business, the Navy Stock Fund management has met the changing requirements with system and procedual changes. The system type changes discussed in the prior Chapter are but a few of the innovations and techniques introduced to help the manager meet the challenge of change. For the most part, the system improvements have worked well;

but, often at the expense of restricting the field manager's decision in favor of central decision-making. This is not necessarily bad; but, if not recognized by top management could lead to reduced motivation by field managers.

It is believed that this situation does exist, or stated another way, managers could probably be motivated to do a better job. Again, this is not a new theory as Chapter IV pointed out there have been several broad theories of management practiced by the business world. One theory, that of participative management, would seem to provide the greatest potential reward if used in management of the Navy Stock Fund retail system. As was pointed out, the profit motive or reward by the managers or employees, was a direct stimulant in the business setting; but, probably should not be discounted completely in the retail system application. While profit is not the motive in this system, benefits are. Benefits in the form of attainment of meaningful goals which are aligned within the framework of the revolving fund functional objectives. The existing control measurements of effectiveness improvement and reduced inventory levels do not effectively represent meaningful goals for which the field manager has control of or can establish a plan for attainment. A new measurement of performance is needed, a measure that will recognize the retail system objectives and the progress toward the field manager's realistically established objectives. The balance of this Chapter will

be devoted to describing one such system utilizing management participation, at all levels, in the process of setting goals and plans for their attainment.

The Modified Participative Management System

The business world model for a meaningful measure of performance is probably that of du Pont. This system measures the Return On Investment (ROI) produced by decentralized units and recognizes those elements for which the manager is able to control. Why not develop a similar criteria for measurement of field activity performance? The field activity managers would be measured only upon those elements for which he could control, not the composite of items listed in the prior Chapter. The intent is not to disregard the effect of the total elements; but, to place them in their perspective. The theory being that a manager will perform better if: (1) he is recognized for his performance and, (2) he will do a better job if he has a role in setting objectives.

The new management approach would require the field manager to establish operational goals using analytical tools of probability of attainment. The manager could identify objectives and alternate objectives based upon various budgets. For example, the manager could determine what the projected level of spending by his customers would be and develop an approximate value of investment dollars

required. It is envisioned that a range would be defined and not a specific amount. The manager now using historical data weighed by probability factors could project an area of planned performance level. Performance level could be measured as it is today, in terms of effectiveness; but, the impact is quite different. The manager will predict the effectiveness per cent he will strive for based upon anticipated customer spending and the effect of various levels of funding within the retail system. In r... qualitative terms, Activity A and B are shown on th pro-posed Goal Plan, Chart I.

The Goal Plan (GP) would be submitted to the retail system top management for technical review and integration into the system objectives. The funding re-quirement would facilitate justification of the retail system budget for a given level of activity with a projected performance indicator. The quantitative performance in-dicator is a commitment on the part of the field manager to attain a given effectiveness per cent. Retail system top management would expect the field activity to perform accordingly.

To complete the cycle of the GP (proposed), the system management team would review and analyze the GP using currently available data and would approve, modify or reject. Retail system restraints may require changes in parts of the GP, such as limited funds; but, the alternatives

CHART I

GOAL PLAN (PROPOSED)

ACTIVITY A

ANTICIPATED CUSTOMER SPENDING (12 MOS.)	BUDGET REQUEST (RETAIL SYSTEM)	#EFFECTIVENESS GOAL
$400 (aggregate)	*$400-425	90%
	450-500 Alternative I	92%
	300-350 Alternative II	87%

ACTIVITY B

ANTICIPATED CUSTOMER SPENDING (12 MOS.)	BUDGET REQUEST (RETAIL SYSTEM)	EFFECTIVENESS GOAL
$400 (aggregate)	$425-450	90%
	500-540 Alternative I	93%
	300-325 Alternative II	81%

* If budget provided as requested, then the effectiveness goal becomes a committment by the field manager.

\# Note different values by different activities.

presented would be of value in this high level decision. The retail system management team would discuss with the field manager any changes, and general agreement on the GP would be possible. As a result of this joint agreement of the GP, the field manager would have a budget commitment and in turn would have identified the activities' goal.

It is believed that this modified form of participative management would not only reflect realistic goals; but, would serve as a tool to maximize the effort at the field activity. Field managers would be more motivated to reach a goal in which they participated in setting than in reaching the one goal established for all activities.

The field manager would be measured on the basis of real performance, on an individual base reflecting the result of controlled and weighted uncontrollable elements. The system management team would be expected not to interfer with the field activity operations to allow an autonomous type decentralized control. Good managers would perform well and poor managers would be identified. This may seem somewhat harsh; but, to meet the challenge of the demands of improved performance with a budget reduction (system wide), management techniques must be updated. This is a proven system in the competitive business world and the revolving fund is a business.

Organization Change and Implication

The proposed system would require rational

judgement on the part of all levels of management and a very high degree of integrety. To insure a more complete integration of field activity goals and retail system goals, it is proposed that a new level of lower top management be introduced to facilitate greater interpersonal action. District or regional offices could be established, reporting to the Fleet Material Support Office or to the Headquarters, Naval Supply System Command. The district office would be an extention of the top management; but, would be able to deal on an individual basis with each field activity in its area of responsibility. Continuous flow of information would be possible upward and downward. The GP could be discussed and reviewed in detail and become a positive tool of control.

The key to this system is the personal contact necessary to achieve the confidence of participation which could result in greater manager motivation. This type of organization change may be difficult to establish; but, the vast benefits including greater flow of information to top managers may be well worth the possible short-run sacrifice.

It is It is envisioned that all levels at the field activity would take part in the preparation of the GP. Perhaps a junior board similar to McCormick and Company could be established to develop a bottom up document describing the goals within the framework of the effectiveness indicator system. This means that the important decisions

of when and how much inventory to buy would be made with individual commitment and consideration of the overall goal. Not just the top manager commitment, but all hands working toward a common goal.

It is believed that this type of participation opportunity would be welcomed by members of the organization. Many dedicated career employees have become victims of simple division of labor efficiency. Employees prior to the mechanization of inventory control functions played a very key role of managing certain items of inventory and were able to see the results of individual and collective results, i.e., controllable elements of performance could be measured. But, this is not so today! This thesis is not advocating the abolishment of routine work; but, is suggesting that participation by all employees in setting goals will be of value throughout the entire activity. More specifically, the human aspect will be put back into management, not in conflict with computer logic, but hand in hand with it. Human motivation is obviously an omitted element and must be re-introduced in a modern conceptual framework. The theory of the revolving fund has only been partially put into practice as a flexible management system. Continuing to fail in realizing the full potential of human participation <u>and</u> the many system improvements may prove to be a costly error. The challenge or perhaps the crisis is evident - a need for improved service to meet the growing, changing

demands of customers with a decreasing supply of funds.

Analysis of New Management Philosophy

The management changes will undoubtably have a serious impact on the traditional management philosophy and span of control methods in use now. The Naval Supply System Command and the Fleet Material Support Office currently provide volumes of expertise policy directives to the many field managers for implementation and action. Top management conducts various training programs and augments with occasional field visits.

The field manager is inspected and often audited by <u>other</u> organizational teams with varing degrees of concern for the operation delineated by the Navy Stock Fund directives. However, the field activity reporting system requires Navy Stock Fund reports to be forwarded to the fund managers. The point here is that the fund top management team does not conduct cyclical inspections at the field activity; but, manages by remote control. This type of traditional management philosophy would be affected by the new system.

Replacing the traditional system would be the human oriented system with major emphasis on participation which should lead to a greater degree of manager motivation. To properly evaluate the potential of the proposed system, it is helpful to consider the advantages and disadvantages.

Advantages

1. The specific budget request submitted by the field manager would include a more qualitative base in a quantitative context with identification of the activities' objectives.

2. The activity could be measured on performance in individual terms. Results of sound management would be easily identifiable with proper consideration to those elements controllable by field managers. Activities would no longer simply be measured on a wholesale basis against each others' effectiveness per cent.

3. The field managers' budget or Goal Plan would represent a total commitment plan and not just a dollar request. If the Goal Plan is approved and funded, then as a result of the activity participation program a strong motivational force would exist and facilitate attainment.

The fund management would now be able to select the funding plan that is within the constraints of the retail system and view the field activity plan as a reasonable expectation. Certainly modification of the plan would be necessary; but, this level of interaction would also be a powerful motivational force.

4. Performance results could be used by senior line managers for recording individual performance in the managers' professional specialty category.

5. The retail system management concept would

essentially be a system of several management teams throughout the organization in which participative plans would serve to establish goal congruency both top downward and bottom upward.

Disadvantages

1. Increased requirement for management talent and new requirement for additional managers for the district or regional assignment.

2. The control would tend to be less centralized and more in the hands of district managers. Field managers would also have a greater role in planning rather than only execution.

While the disadvantages are very real and costly in terms of additional manager procurement, there are some subtle gains. For example, as the lower level managers are permitted to have greater say in the planning phase, they will: (1) Increase their awareness of the total program and problems which will be a ready made management development program. Managerial talent can be recognized and channeled accordingly to progress to higher levels, while weaker managers can be better evaluated and assisted as necessary. (2) As the control becomes somewhat less centralized, more ideas and creativity will be possible, perhaps innovations never before conceived will be possible by utilizing this larger brain trust.

There are always inherent problems in change, but

top managers must seek out those necessary changes that will lead to the organizations' objectives. The listed disadvantages, while probably not complete, represent those areas of major concern. These are areas that chop at the roots of the traditional management philosophy and would require a major rethinking by top management. However, the advantages listed seem to outweigh the disadvantages and this system may be necessary to preserve the conceptual framework of the revolving fund. If the dollar belt is being tightened, then organization effeciency must be reviewed to locate sources of internal economies. The proposed system of management does this and is believed to be worthy of serious consideration and possible further research.

Conclusion

The Navy Stock Fund's history is one of change in which time it has had to operate under many handicaps. That it has been able to do so successfully should be a source of pride to its managers, both past and present . . . that it has been required to do so should not be surprising. Its very strength has been its capacity to adjust to the needs of management and the forces it was designed to support.

> The Department of the Navy has had this very excellent tool for management for 54 years. It started 54 years ago, as a rather small business operation, and was very helpful in World War I. It carried on in a substantial size through the

> twenties and thirties and stood the test of World War II in excellent fashion.[89]

This comment by W. J. McNeil, a former Assistant Secretary of Defense (Comptroller) truly denotes the high regard for this management concept. Many of the problems the stock fund faces today have been faced before. This does not mean they can be met with the same solutions. Management decisions must be based on the present and the future. The past is useful for analysis only, analysis that should enable us to make better decisions now for our system of tomorrow.

One of the principal problems which faces the management of the Navy Stock Fund today, the limitations on operating capital, will never be completely solved, nor should it be. There must be a continual need to improve these limitations, in the absence of a profit motive, provide such a stimulus.

Technological changes have served the managers well and will continue to contribute to improved fund control and operation. But, growth alone in the state of the art is not enough. However, management talent can provide the additional strength to bridge the gap between the problems of today and the successful operation of tomorrow.

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[89] U. S. Congress, Senate, Committee on Armed Services, National Security Act Amendments of 1949, (Washington, D. C.: Government Printing Office, 1949), p. 2669.

A new management philosophy is needed for this business. The Scanlon Plan, McCormick and Company, du Pont and General Motors faced a similar crisis and initiated organization and managerial philosophy changes. The results speak for themself. The path is well defined and only needs to be followed. The process of management motivation must recognize the human needs in applying the participative approach. The act of participation leads to greater commitment of the individuals in the organizations. This participation concept coupled with well defined control parameters leading to attainable goals is one way to achieve greater benefits from this management tool called a revolving fund.

It is strongly believed that all levels of management should take part in setting goals and objectives. Thus, participation and understanding of the system restraints and opportunities in the operational changes are necessary for this participative approach to function properly, both at the top management level and at the field level. Organizational changes often are slow, but when accomplished can serve as that vital final stimuli to assure success. It is recognized that there are many inherent problems in accomplishing organizational changes in this large business, but it must be realized that the retail system's future performance may depend upon it.

In conclusion, it is believed that the research question has been developed and answered in the affirmative and that a plan has been outlined for improved management through participation and setting of meaningful goals and objectives on an individual activity basis. Manager motivation has been identified and stressed as the key element in attaining greater effeciency in the operations of the retail system. While this proven theory of manager motivation is not a panacea for all organizations, it is believed to be the one element necessary to meet the challenge of change and the continued successful operation of the Naval Stock Fund.

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